HARMONIZING LABOR AND CAPITAL BY MEANS OF INDUSTRIAL PARTNERSHIP

By Alexander Purves
Treasurer, Hampton Institute, Virginia

In this age of business supremacy, when trade has become the leading science and merchandising an art; when sentiment is being pushed aside by the forward rush of commercialism, and expediency seems to be successfully competing with morality; when one is almost persuaded that the Church itself, to survive, must be conducted with business sagacity, one is compelled to acknowledge the futility of urging any plan for the reformation of the existing relations between capital and labor with serious hopes for its present consideration and possible adoption, except the same shall be able to prove its principles to be in accord with good business policy.

There are those who believe the danger to vested interests is increasing proportionately with the ever growing average of intelligence on the part of the wage-earners and that the former will eventually be overwhelmed by the latter to the demoralization of both unless capital anticipates and averts the danger by securing and maintaining a hearty co-operation of the working classes through a substantial acknowledgment of the just claims of enlightened labor to an enlarged share in the product of the two.

It seems reasonable to assume that with the advance of civilization and general intelligence, some means must be found for the treatment of the whole matter of the return for services rendered, that shall be more progressive and more humane in character than the present basis of supply and demand. As Prof. Gilman says—"We must acknowledge that the wages system, viewed in its simplest form of time wages, does not supply the necessary motives for the workman to do his best." To which we may add, that neither does it appeal to his sense of right nor to his theory of justice.

The first advance towards a change must be made by the masters, and any movement for a revision of the existing system must take form in an apparent concession on the part of vested

interests. The apparent indifference and complacency with which the dominant class regards the whole matter is most regrettable. The leaders in reform should adopt some plan whose successful operation would commend itself—from a business point of view—to the many masters. That is to say, whatever is done in that direction, let it be done primarily because it is *just* and right. Then if it can be shown to be profitable to capital, so much the better. Such a demonstration would be invaluable, not so much by reason of the resulting increase in the incomes of the leaders in the movement, as that such a fact would make probable the extension of the system into other enterprises where such an incentive would have the stronger influence.

The successes, moderate though they have been, which have generally attended the introduction and operation of profit-sharing plans in various forms, should encourage further developments and extensions of that system in the broadest manner possible, without, however, introducing or permitting any features that would embarrass the administration or weaken the personnel. As the successful manufacturers of the present generation are largely those who have found ways to utilize the by-products and the power which had theretofore gone to waste, so the successful masters of the future must be those who shall find some means of harmonizing the demands of capital and labor, thus saving and utilizing that large percentage of human energy which is now worse than wasted in the continual contention, passive or active, between the working classes and vested interests. Apart from every other element of advantage, can there be any question as to the increased *physical* capacity and staying powers of a man when led on in hopeful expectancy rather than when driven on by physical necessity?

It is justly claimed that in many instances the wage-earners would not be benefited by a distribution in cash of a percentage of the profits, that they would fritter it away either foolishly or with lack of discretion. There is nothing to which the average family can adjust itself so easily and with such alacrity as to an increase in income. Could we but save the wastes of carelessness, the losses from strikes and lock-outs, and to these add the enlarged profits resulting from a broader co-operation and greater physical ability to produce, then capitalize and conserve all of these for the benefit of those who in each case have contributed their proportion

—either in capital, brains or labor—to the enlarged success of the enterprise, we would have placed within reach better homes, better clothing, better food, better schools, and have taken a step forward which should inspire individuals of both classes with higher ambitions for a larger and better life.

"Prosperity sharing," strictly speaking, does not go far enough, because it limits the amount awarded to labor to a small percentage of the real profits. The share must be small because "adversity sharing" does not accompany profit-sharing. In all fairness the share of labor in the margins of the business should be of such proportions that justice to all would make it alike a sharer in losses as well as in gains. By this we do not mean to say, when losses occur, that labor should contribute actual money to make good any portion of the impairment. Such a proposition would be impracticable and impossible. The share of labor in the surplus profits—that is, after the payment of standard wages and a just return to capital for its simple use—should be upon a most liberal basis, and any and all impairments suffered in years of adversity should be made good out of subsequent surplus earnings (in which, except for such impairment, labor would have been a sharer) before wages shall again be entitled to any further dividends.

Amongst the various schemes that have been put into operation in those concerns which have endeavored to make their employees sharers in the profits of the business, the most familiar plan is that of offering to wages a dividend on the total amount thereof, at the same rate of percentage as is paid on the par value of the capital stock. This proposition is unfair, since in most industries the capital stock amounts to several times the total of the annual pay-roll. After the first adjustment upon that basis, the incentive to labor to strive for larger results is almost insignificant, since the share of wages in the subsequent increased earnings would, where the capital is equal to say four times the annual pay-roll, amount to only one-fifth of the increase in net earnings, the other four-fifths thereof going to capital.

Other institutions have established a custom of presenting to their employees annually a sum of money equal to a certain percentage of their salaries. But this extra income soon becomes as much a matter of wages as the weekly or monthly pay-roll, and little real good is accomplished—the employee is still working for *fixed* wages. There is something in the make-up of a man that cannot

be wholly satisfied, no matter how secure it may be, with a definite agreement that he shall receive a certain fixed sum of money for a given amount of work, however liberal the compensation may be. There is a positive satisfaction in having a pecuniary interest in an enterprise where the financial return is not definitely restricted and known in advance, even though there may be as an accompaniment some danger of a loss.

Any attempt to satisfy the craving of labor for justice will fail if handicapped by paternalism. A man must be acknowledged a man. His sense of independence and self-respect must be strengthened and not crushed.

Furthermore, a man is not satisfied to have even a part of his just earnings expended for him. Company kindergartens, company libraries, company churches are doubtless very estimable in their way and are doing much good. They are a step in the right direction and most valuable in the practical demonstration which they offer that it pays capital to improve the conditions and surroundings in which the operatives live. But those who are to enjoy these institutions should not be allowed to feel that they are under any obligations to the owners thereof. Rather they should be given to understand that a certain definite percentage of the net earnings of the enterprise would be expended for the public good—not as a benefaction, but as a just due—giving to the operatives, as far as possible, the administration and management of such company institutions.

Some manufacturers believe that if their employees can be induced to purchase homes adjacent to the mills the labor problem has been solved. From the manufacturer's point of view the plan is attractive. An employee who puts the hard-earned savings of years into a small dwelling—generally situated in a community wholly dependent upon the local mill of his employer—doubtless ties himself up very effectually to the enterprise, but whether he is attached by his loyalty to and affection for the concern, or is held by the self-welded fetters of a money investment is an open question.

The actual value of an investment in any business is based primarily upon the security—the consideration of the rate of interest being secondary to the safety of the investment. This is recognized by the great exchanges where all manner of stocks and bonds are bought and sold. These compel the frequent

publication of the earnings and general business of those corporations that desire to have listed any of their issues of securities. No one can say with truth that public knowledge of the affairs of any such corporation has imperiled the proper operation and legitimate success of the enterprise. On the contrary, experience has proven the wisdom of such a course from every standpoint—the public is better protected in its investments of capital and such corporations are given a standing in the financial world not accorded to those who keep their affairs secret and guarded from the public view. We are compelled to infer that the negative action on the part of these latter concerns is prompted by one of two reasons: either they are striving to secure a higher credit rating than that to which their actual condition would entitle them, or, more probably, that they fear their percentage of net profits is larger than public sentiment would regard with favor. It would seem in either case that the interested public is morally entitled to frequent and intelligible information regarding all corporations which owe their very existence to the public consent.

What is true of corporations is true of individual partnerships as well. To let the interested public have knowledge of the true state of affairs would doubtless be very distasteful to all classes of masters. And yet it is not difficult to imagine that conditions still less agreeable may confront the masters if the demands for justice to wage-earners are ignored. Would not the publication of figures covering the assets, liabilities and earnings (or losses) place all business upon a firmer foundation and exert a helpful influence on the adjustment of profits between capital, brains, skill and labor? Is the withholding of truth an established virtue and the publication of truth a dangerous experiment? And finally if the introduction of profit-sharing into a business necessitates the publication of the earnings of the business, would it not be fair to ask the few masters to make that concession to the interests of the many workers?

Business organizations are composed of two classes—those who own and control and those who operate and produce; or rather those who contribute their money and those who contribute their lives. We are not aware of any moral law that denies that the man who makes his contribution of flesh and blood in work—be it in stoking a fire, running an engine, operating a type-writer, selling goods or driving a truck—is justly entitled to as full a knowledge

of the pecuniary result of his labor as the man who merely loans capital to the operation.

The following principles may be set down as sufficiently well established to be used as a basis for working out plans for the reform of prevailing relations of labor and capital:

(a) That whenever there is sufficient confidence on the part of the employees a direct or an indirect dividend to labor is a good investment for capital.

(b) That with an actual dividend-earning interest in the business every participant would be prompted to individual efforts: 1st. Towards accomplishing more work in a given length of time. 2d. In the saving of waste. 3d. In seeking and suggesting improvements in the manufacture and in the conduct of the business looking to the advancement of the general welfare. 4th. In that it would naturally become the self-imposed duty of every employee to challenge a co-worker for laziness or upon the commission or omission of any act through which a loss to the business would be the likely result; and, therefore,

(c) That capital in business is best secured when every employee is pecuniarily benefited through the enlarged success of the enterprise.

It is a false theory that capital shall not accumulate, or that the return upon it shall be restricted within definite limits. There must be allowed to capital the opportunity for enlarging returns in the development of new enterprises—a chance to earn more by risking more. Otherwise there will be no incentive for its broader operations and its usefulness will be restricted. That capital is accumulated in the hands of the comparatively few is not, generally speaking, an accident, but rather that fact is a strong indication that those who control it are the men best qualified to hold it intact and make it most productive.

Besides the elements of capital and labor, the matter of brains or business sagacity must be recognized as an indispensable factor in business and must be reckoned with. The peculiar ability that a certain small percentage of men possess to conduct modern business ventures at a profit is of great value, is always in urgent demand and must be well paid for. Like everything else it will naturally seek for itself the best market and will generally go to the highest bidder. There can be little doubt that the neglect to

recognize and properly care for this element as essential to success has been largely the direct cause of the many failures of purely co-operative ventures. Brains must be paid for. Sagacity must have its reward.

Amongst the many obstacles which confront any effort to arrive at some fair basis for the introduction of profit-sharing institutions, probably the most prominent is the difficulty of establishing a satisfactory system for calculating and treating the profits and losses of the business so as to avoid the element of suspicion on the part of the employees as to the fairness of the bookkeeping employed in arriving at the basis for the division to them provided for in the agreement. Many honest efforts of employers to introduce plans for a distribution amongst the employees of a percentage of the net profits of the business have been defeated solely by reason of the inability of the management to overcome the distrust on the part of the wage-earners in the bookkeeping, it being a simple enough matter so to treat the accounts of profits, losses, depreciation of plant and receivables, that the percentage actually due the employees under the agreement may be cut down or entirely obliterated at will. The plan of having a direct representative of the employees (of the watch-dog order) in the management is neither desirable nor logical. There may be individual and isolated cases of perfect faith and trust on the part of labor towards capital, but as a business proposition in the present stage of our moral development there must be something more tangible than the mere verbal assurances of the owners, endorsed by an accounting under their direction.

It is with the aim of presenting a plan for meeting in a measure this difficulty, and at the same time outlining a scheme which should operate to the mutual advantage of both capital and labor without compromising the security of vested interests, but rather strengthening it, that the suggestions herein contained are submitted—the basic principle being that the encouragement of righteous ambition with a well-grounded hope for future prosperity must surely develop the best there is in the wage-earner with benefit both to himself and to capital as the inevitable result.

In considering the proportion of the net profits which should be paid out in cash dividends to capital for its use, it may (at least for the sake of presenting this argument) be counted fair to assume that in the average legitimate enterprise the withdrawal of say

60 per centum of the actual net earnings would be the *limit* of safe business policy and that the remainder of such earnings should be kept in the business for the purpose of extending the enterprise and the more securely protecting the investment.

As an outline for a plan for the proposed adjustment in a concern already established, the proposition is that a binding agreement shall be entered into, which shall provide for the payment of the regular standard of cash wages to all employees of the concern, including the officials and management—and shall likewise name a definite amount which shall be determined to be a just and fair annual return to capital for its simple use; not, however, exceeding say 60 per cent of the average established net earnings; that the agreed amount shall be paid annually (in quarterly or half-yearly instalments) as a dividend upon the common stock of the corporation *cumulatively;* that it shall be especially understood that the company by a two-thirds vote of its common stockholders may issue for needed additional capital preferred stock; that the prior right to subscribe to such preferred stock shall be pro-rated one-half of the issue to the holders of common stock, and the other one-half to the holders of the debenture books (hereinafter particularly set forth) in proportion to the par value of the respective holdings; that wages shall be a first claim upon the assets, and that the dividends to capital stock shall have the first claim upon the net earnings, and that they shall be cumulative at a rate fixed by agreement; that after the payment of such dividends as a *first charge* upon the net profits of the business, 20 per cent of the net profits then remaining shall be set aside in a contingent fund (to be hereafter specifically referred to) and that the balance of the annual net profits still remaining shall be held in the business—but, one-half thereof for the benefit of the stockholders and the other one-half for the employees (under certain restrictions and agreements to be explained presently).

It will be readily seen that the above treatment of the annual net profits would continue the accumulation in the business of the surplus earnings in excess of the regular cash dividends, and so increase, as now, the security of the original investment and (as hereinafter shown) in no way diminish or endanger the present power of the stockholders to control the management of the concern.

To accomplish this, it is proposed that after the regular cash dividends have been paid to capital and the said percentage set

aside for the contingent fund, annual stock dividends shall be declared covering the amount of the surplus earnings which are to be held in the business; that the certificates issued therefor shall be in the nature of *deferred stock debentures* which shall have no voting power and shall be subordinate in every respect to the common (and preferred) stock of the concern, both as to dividends and principal, so that said deferred stock debentures shall not be entitled to any dividend or interest whatsoever except when earned during the then current year, and not until after the dividends upon any preferred stock shall have been paid or set aside, nor until the said agreed sum (equal to 60 per centum of the established average net earnings) shall have been paid out, or set aside for the dividends upon the common stock and said contribution made to the contingent fund; that the said deferred stock debentures shall receive dividends at a rate not exceeding 6 per cent per annum when earned in the then current year, and in no sense shall said dividends be cumulative; that in the event of liquidation or dissolution, the common (and preferred) stock shall be paid in full before any payment shall be made upon the said deferred stock debentures, but said deferred stock debentures shall then receive all of the assets remaining after the payment in full of the preferred and common stock and of all outstanding indebtedness; and that the said deferred stock debentures shall always be subordinate to the general creditors of the company.[1]

These deferred stock debentures shall all be issued to a trustee —one-half thereof to be held in trust for the benefit of the common stockholders, and the other one-half shall be considered as *extra wages* and shall be held by said trustee for the benefit of the employees. Cash dividends on all deferred stock debentures, when declared, shall be paid to said trustee, who shall disburse the same— one-half thereof to the holders of the common stock pro rata, and the other one-half to the employees in proportion to the respective amounts standing to their credit on their debenture books (hereinafter described).

That is to say, for illustration, that if the capital of the concern is $1,000,000 and the net earnings for the past several years have

[1] We have assurances from eminent corporation attorneys that the proposed issue of deferred stock with the suggested limitations thereon is entirely legal and feasible, and that it can be done without danger of having the concern forced into a court of equity by the holders of such certificates.

averaged $200,000 per annum,—60 per cent of such earnings, or $120,000, would be the amount agreed upon as the annual cash dividend to capital represented by the common stock,—that 20 per cent of the balance of such earnings, or say $16,000, would be the amount to be paid into the contingent fund, and that at the end of the first year of the operation of the plan the balance, or sum of say $64,000, would be held in the business, but that deferred stock debentures to cover said amount would be issued to the trustee—$32,000 to be held for the use of the stockholders, and $32,000 as extra wages to be held for the employees. At the end of the second year after the payment of the dividends to common stock and the percentage to contingent fund, a dividend would then be declared upon $64,000 of deferred stock debentures, and for the balance of the net profits still remaining another issue of deferred stock debentures would be made to said trustee; and so on from year to year.

The effect of the above arrangement being that after the payment of all cash dividends to common (and preferred) stock, and the setting aside of the said percentage to the contingent fund, the surplus earnings then remaining—representing the surplus assets of the company—would be capitalized in the form of deferred stock debentures and held in trust for the joint interests of the original owners (or their assigns) and the employees—it being especially provided that should the company at any time or times prefer to pay the amount of surplus earnings in cash directly to the stockholders and the holders of the, debenture books instead of issuing the deferred stock debentures therefor, it shall have the right and option of so doing.

Each year the amount of the deferred stock debentures to be issued to the trustee *as wages* shall be calculated as above outlined, and the percentage thereof in which each individual employee is interested shall be determined by the proportion that his wages for the year shall bear to the whole salary list for that period. This amount then shall be set down in his debenture book, and upon this sum he will be entitled to receive through the trustee (when earned) dividends not exceeding 6 per cent per annum, non-cumulatively and subject to certain limitations set forth in and made a part of his debenture book as hereinafter particularly set forth. The fees of the trustee for the above and all other services to be charged to the general expense account of the concern. The said trustee

shall be entitled to full statements of the condition of the company at any time, and at all times shall have access to the general books of the concern.

A debenture book shall be issued to each employee, and shall contain a full statement of the conditions upon which the same is issued, and shall be signed by each of the respective holders thereof in evidence of his understanding thereof and agreement thereto. Each debenture book shall be numbered, and the age, nationality, sex, etc., of the employee shall be stated therein. It shall provide among other things:

(a) That no employee shall be entitled to participate in these extra wages until he shall have been for one year in the continuous employ of the company.

(b That the debenture book may be redeemed by the company at its option, at any time upon the payment of the total principal sum or sums therein set forth.

(c) That nothing therein contained shall in any way limit the power of the management in the control of the business, and that their authority to employ and discharge any employee shall not be limited in any way whatsoever, but shall be left entirely to the discretion of the board of directors and that under no circumstances shall the issuance of said debenture book entitle the holder thereof to any voice in the management of the business.

(d) That in case of losses in the business in any year or years, the impairment thereby caused shall be made up either (first) out of subsequent profits, or (second) out of the contingent fund, or both, and all accumulated dividends upon the common and preferred stock shall have been paid in full before the holder of the debenture book shall be entitled to any dividends.

(e) That the individual named in the debenture book shall, after all impairments have been made good and all dividends on the common and preferred stock due and in default, as above set forth, have been paid, be entitled to receive, through the said trustee, dividends, when earned, at a rate not exceeding 6 per cent upon the total of the amounts therein set forth, but in no sense shall the dividends upon the debenture book be cumulative.

(f) That said debenture book shall not be redeemable during the life of the employee named except at the option of the company.

(g) That in case of the death of the holder thereof, the same shall form a part of his estate and shall be convertible into cash

at its par value within thirty days, upon application to the company, and the same shall be paid for out of and held by the contingent fund when the balance in said fund will so permit, otherwise to be paid for out of the general unds of the company and held in the treasury.

(h) That said debenture book shall not be transferable without the consent of the company.

(i) That it shall be especially understood and agreed that all calculations of profits and losses of the business shall be left entirely to the discretion and best judgment of the board of directors, and that their decision upon these and all matters touching the question of depreciation of plant, amounts charged to profit and loss, valuations and inventories, and all other matters affecting the business and policy of the company, shall be final, and from whose decision there shall be no right of appeal.

(j) That the "net earnings" of the concern shall comprise the amount of the profits of the business after deducting all losses and charging off an agreed percentage in the valuation of the plant account for depreciation and any other items of doubtful value, at the discretion of the board.

(k) That in case the holder thereof shall make or attempt to make any assignment of all or any part of his interest as set forth in said debenture book, the same shall, at the option of the company, be immediately forfeited as liquidated damages for violation of this contract, and shall revert to and be held as a part of the said contingent fund.

(l) That these debenture books may be attached by the company for any indebtedness due to it, in any department, by the holder thereof.

(m) That the company reserves the right to issue for capital account preferred stock with cumulative dividends, which new issues shall in every particular outrank all issues of deferred stock debentures; it being provided, however (as above set forth), that the holders of these debenture books shall have the prior right to subscribe, pro rata, to fifty (50) per cent of any and all of said new issues of stock.

The amount to be set aside to the contingent fund shall be paid in cash, and may be invested in legal and marketable securities. This fund shall be held in the first place to make good to the company any excessive business losses that cannot be met out of

the current profits of the concern. It will also purchase at par the debenture books of deceased employees; and any accumulation of income therein shall be used as a basis for sick benefits, etc., upon such a uniform plan as the amounts thereof will warrant, the disposition of the available income for that purpose to be placed as largely as practicable in the hands of the employees.

The proposition is that the above treatment of profits shall be continued annually from year to year, so that at the end of the second year of its operation—after the payment of the regular cash dividends upon the common (and preferred) stock out of that year's net profits and the payment into the contingent fund—the dividend on the deferred stock debentures shall be declared and paid upon the amount thereof held by said trustee; and for the remainder of the surplus earnings for the second year another issue of deferred stock debentures shall be made to said trustee, one-half for the use of the common stockholders and the other half as extra wages to be held for the use of the employees, and that the amount thereof to which each employee is entitled to credit shall again be determined as above set forth, and shall be entered in the respective debenture books and added to the amounts of the previous similar credit, and so on from year to year, it being provided as above set forth, that in case the company could not make advantageous use of this increase of capital it shall have the option of disbursing the amount in cash direct to the employee and stockholders.

Could the masters manipulate the bookkeeping so as to fleece the employees of the percentage of profits to which they were actually entitled? The writer believes that this could not be, and for the following reasons:

(a) It will be seen that under the plan as suggested, whatever action the management might take regarding the valuation of the assets and calculation of the annual profits, its decision would bear equally upon the interests of the stockholders and of the employees.

(b) If the management is overly conservative and the actual surplus assets are thereby cut down, the stock dividend to the trustee, representing both the employees and the stockholders, would be *for that year* unduly diminished; but such action could make little or no difference in the final result, as the actual surplus assets would still be intact, and if not shown in one year would surely appear in another. So that beyond a delay in the division

thereof those in control of the bookkeeping would be powerless to discriminate against the employees, and as already shown an unfair settlement would bear equally upon capital and labor. Then, too:

(c) There could be little or no object in such an attempt, as it is not intended that the surplus, whatever the amount may be, shall be withdrawn from the business and distributed, but that the whole of the same shall be retained in the business (so long as it can be used advantageously), and under the plan as outlined all of these surplus earnings shall be capitalized and subordinated to the original investment and thus acting practically as a guarantee fund to protect and secure the same; and, again,

(d) It is a part of the plan that all employees, from the lowest form of unskilled labor to the highest salaried official, shall be sharers in the dividend to wages. Under such an arrangement it would be practically impossible for the owners to equivocate or to treat the question unfairly.

It will be generally conceded that the universal publication of the assets and liabilities of all business enterprises would greatly simplify and proportionately stimulate trade. With the added security against losses that such a system would assure, a liberal extension of credits would be the natural and a safe outcome. It is more difficult, however, to meet the question as to what effect the publication of the earnings, debts and resources would have upon the credit and general business of a *single* concern when in direct competition with others in the same class which continued to hold to the system of secrecy. It is clearly impossible to make a conclusive statement concerning this question. Whether the publication of accounts by one concern would work to the advantage or disadvantage of its secretive competitors seems wholly problematical. So far as we can see, however, indications point with some confidence to the ultimate success of that concern which does not conceal that of which their creditors of a right should be informed.

Regarding the probable effect upon the general business of the concern, it seems reasonable to claim that the liberal and just treatment of the employees will surely appeal to the public at large and that the advantage gained through the profitable influence that such action will have upon the concern's constituency, especially among the buying public, would largely overbalance any

possible disadvantage that could come as a result of the exposition of figures regarding the condition of its affairs.

As to the effect on credit when the published earnings show a decrease in profits it is still difficult to do more than surmise, though if the liabilities of the enterprise are made up more and more each year in a growing percentage of subordinated income-debentures we believe the publication of decreased profits would not operate towards the impairment of its credit, and certainly not until the losses became so extensive as to imperil the solvency of the concern —in which latter case it seems clear to us that little can be justly said in support of the custom of concealment.

Would the plan of letting the employees generally become part owners of the concern place them in a position to give trouble to the management of the enterprise, and would they not soon demand, as stockholders, the right to a voice in the direction of its affairs and in the shaping of its policy? On the contrary, it is urged:

(a) That with the proper and timely guarding of the interests of the original investment through sufficient, clear and undeniable limitations upon the rights and powers carried with the issues of deferred stock, such issues could not be used to the detriment of vested interests, but rather:

(b) That such a pecuniary interest in the enlarged success of the business would act as a guarantee of loyalty to the management and as an incentive to the employees to further the legitimate business of the concern, and:

(c) That the employees with a money investment in the enterprise, if for no higher reason than the instinct of self-preservation, would realize the value and necessity for harmonious and sympathetic co-operation between the capital, brains and energy of the concern.

Would capital be benefited by the operation? We claim without reservation that it would—and for the following reasons:

(a) That the net profits of the business would be largely increased through the reduction of friction; the larger incentive of labor; the increase in the physical capacity of the workers to produce; the saving of useless waste; and through the absence of strikes and lock-outs; as in all of such increase in net profits the capital would be an equal sharer with its employees.

(b) That the true loyalty and support of all employees would

greatly strengthen the security of the capital in the business and proportionately add to the real value of the investment.

(c) That where adverse legislation may be easy of accomplishment when it attacks the interests of one man or a small body of men, it would be quite a different matter where the interests of all employees are involved.

(d) That the surplus profits would not be paid out and distributed, but would be held in the business, subordinated to the claims of the original investment, and so very materially adding to the security thereof.

(e) That with a property interest in the business the tendency of the operatives to shift from one concern to another without real purpose would be reduced to the minimum, and that the consequent advantage to the management would result in a distinct gain in the stability of the business.

Would such a plan when perfected succeed? If it would increase the productivity of the workers, if it would tend to elevate character, to develop a greater loyalty to the concern and help to change an operative from an automaton into a man, if it would strengthen the security of vested interests and narrow the gulf between wealth and work, and finally, if it would be in the direction of righteousness and justice, it must finally succeed. It cannot be expected that at first the introduction of such a scheme would be received by the operatives with enthusiasm. It would only be through the medium of their more intelligent leaders that they could be assured of its benefits, and only after several years of successful operation could we expect it to receive the unqualified support of the workers. When, however, their capitalized extra wages show an accumulation and they begin to receive annual cash dividends upon the surplus earnings of previous years, we may be reasonably assured of a decided change of sentiment in its favor.

In the meanwhile the masters would do well in avoiding undue antagonism to labor organizations *per se,* so far as the large body of wage-earners is concerned, the benefits of profit-sharing are still to them unproven, while the trade union has in many ways demonstrated its usefulness in protecting the interests of its members. Whether it does more really to help the best interests of the worker than to hinder, may be an open question. However this may be, certain it is that the institution is strongly established in the mind of the workman as his strongest friend, his one means of expression

and his only hope of material salvation. In its reverses as well as in its successes his heart will remain loyal to his union, until he shall have been furnished a substitute which has proven to him its larger usefulness.

In view of the increasing tendency to incorporate business, this paper has treated the question as it relates to organized capital. It is nevertheless clearly true that the same general situation obtains in the strictly partnership concerns and that the principles herein suggested could be the more readily applied in such cases, especially as the power to act is concentrated in the hands of a few individuals who have no one else to consult.

In such a case it is suggested, in place of the issue of the deferred stock debentures, that the surplus net earnings—after the payment of the agreed interest to capital, and the assignment in cash of the percentage to contingent fund—shall be credited to a "mutual reserve fund" which fund shall take the place of the proposed trustee in a stock company, and shall be entitled to receive dividends (or interest) upon the same terms and subject to the same limitations provided for the deferred stock debentures, and that said fund shall be held for the joint and equal benefit of capital and employees—the respective interests of the employees to be entered in a pass-book similar in terms to the debenture books herein particularly described.

The plan briefly outlined is offered as a suggestion. Doubtless every point made can be improved by modification or substitution. If it influences in a small degree more earnest thought on the part of those in whom the power is vested, towards the formation of a comprehensive plan looking to a more reasonable division of the product of all and a fuller acknowledgment of the humanity of man, its purpose will have been accomplished.